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PAGE 01 STATE 049850

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DRAFTED BY TREAS:CLOHMANN:CU

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TREAS:JBUSHNELL

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PAGE 02 STATE 049850

AMEMBASSY SANTIAGO PRIORITY

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E.O. 11652: N/A

TAGS:EFIN, IDB, VE

SUBJECT: VENEZUELAN TRUST FUND IN IDB

REFS: (A) STATE 278451; (B) STATE 8934; (C) STATE 40656

SUMMARY: AS EXPECTED, VENEZUELAN DOLS. 500 MILLION FIVE-YEAR TRUST FUND IN IDB APPROVED FEBRUARY 27. MINIMUM INTEREST RATE FROM THIS FUND WILL BE EIGHT PERCENT. REPRESENTATIVES OF MOST COUNTRIES ELIGIBLE TO BORROW AND U.S. INDICATED DISAPPOINTMENT VENEZUELAN CONTRIBUTION TO CONCESSIONAL RESOURCES IDB NOT CONCLUDED AT SAME TIME, AS PROMISED AT LAST ANNUAL MEETING. VENEZUELAN AND IDB REPRESENTATIVES SAID THEY HOPED TO CONCLUDE NEGOTIATIONS ON CONCESSIONAL CONTRIBUTION OF ABOUT DOLS. 100 MILLION BY ANNUAL MEETING IN SANTO DOMINGO MID-MAY. U.S. SAID CLARIFICATION OF VENEZUELAN CONCESSIONAL CONTRIBUTION IMPORTANT TO PERMIT FINAL U.S. DECISION ON DETAILS FOR NEXT GENERAL REPLENISHMENT OF IDB RESOURCES. END SUMMARY.

1. AFTER IDB COMMITTEE OF BOARD OF GOVERNORS AND BOARD OF DIRECTORS DISCUSSED AND APPROVED ARRANGEMENT TO ADMINISTER

DOLS. 500 MILLION TRUST FUND, IDB AND VENEZUELA SIGNED AGREEMENT FEBRUARY 27. FUND WILL BE USED FOR LOANS AND

EQUITY INVESTMENTS FOR ECONOMIC DEVELOPMENT IN COUNTRIES OTHER THAN ARGENTINA, BRAZIL, MEXICO, AND VENEZUELA, ALTHOUGH THESE COUNTRIES CAN ALSO PARTICIPATE IN USE OF TRUST FUNDS FOR FINANCING EXPORTS, NOT ONLY WITHIN L.A. BUT TO OTHER DESTINATIONS. FOR RELATIVELY LESS DEVELOPED AND LIMITED MARKET COUNTRIES NON-TRADITIONAL EXPORTS MAY ALSO BE LIMITED OFFICIAL USE

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PAGE 03 STATE 049850

FINANCED. EXPORT FINANCING LIMITED TO TEN PERCENT OF TRUST FUND RESOURCES AVAILABLE TO IDB EACH YEAR. LOAN TERMS WILL INCLUDE AMORTIZATION UP TO 25 YEARS, COMMITMENT FEE 1.25 PERCENT, AND INTEREST EIGHT PERCENT AS A MINIMUM. (SEE REFTELS FOR FURTHER DESCRIPTION PROVISIONS OF TRUST FUND.)

2. VENEZUELAN MINISTER OF FINANCE HECTOR HURTADO COMMENTED AT LENGTH IN COMMITTEE MEETING ON LACK OF CONCESSIONARY ELEMENT DESPITE APRIL 1974 BOARD OF GOVERNORS RESOLUTION

APPROVING NEGOTIATION OF "TRUST FUND, PART OF RESOURCES OF WHICH MAY BE USED ON CONCESSIONARY TERMS". HE EXPLAINED THAT SOURCE OF CONTRIBUTION FOR THIS TRUST FUND IS VENEZUELAN INVESTMENT FUND, AND THAT VENEZUELAN LAW REQUIRES THAT IT OPERATE ON PROFITABLE BASIS, WHICH THEREFORE PRECLUDE IT FROM MAKING SOFT TRANSFERS. HE CONFIRMED IDB PRESIDENT ORTIZ MENA'S COMMENT THAT VENEZUELA AND BANK ARE CONTINUING NEGOTIATIONS FOR VENEZUELAN PROVISION OF CONCESSIONARY RESOURCES TO IDB IN NEAR FUTURE AND EXPRESSED HOPE THAT ARRANGEMENT MAY BE FIRM BY TIME OF ANNUAL MEETING IN LATE MAY. IN PRESS INTERVIEW FOLLOWING SIGNING TRUST AGREEMENT HURTADO ACKNOWLEDGED THAT GOV/IDB CONSIDERING APPROXIMATELY DOLS. 100 MILLION IN SOFT FUNDS (ON SAME TERMS AS FSO).

3. MEMBERS OF COMMITTEE OF BOARD OF GOVERNORS ALL PRAISED BANK AND VENEZUELA FOR NEGOTIATION OF TRUST FUND AND MOST ALSO EXPRESSED HOPE THAT CONCESSIONARY CONTRIBUTION WILL BE FORTHCOMING IN NEAR FUTURE BECAUSE MANY L.A. COUNTRIES CONTINUE TO NEED CONCESSIONAL TERMS. URUGUAY, SPEAKING ALSO FOR PARAGUAY AND BOLIVIA, EXPRESSED GREAT EXPECTATIONS REGARDING SOFT MONEY. NICARAGUA ALSO STRESSED IMPORTANCE OF CONCESSIONARY ELEMENT OF OVERALL VENEZUELAN INITIATIVE. ARGENTINA AND MEXICO COMMENTED FAVORABLY ON SPECIAL TRUST FUND EMPHASIS ON INTEGRATION, EXPORT FINANCING, AND EQUITY INVESTMENT. MEXICO REPORTED STRONG DOMINICAN REPUBLIC INTEREST IN FUTURE CONCESSIONARY CONTRIBUTION AND QUOTED DR CABLE. COLOMBIA AND CANADA REFERRED TO TRUST FUND AS EVIDENCE OF APPROPRIATE VENEZUELAN ASSUMPTION OF RESPONSIBILITY TO HELP FINANCE DEVELOPMENT IN LESSER DEVELOPED L.A. COUNTRIES. BOTH ALSO STATED INTEREST IN SPEEDY CONCLUSION NEGOTIATIONS FOR SOFT FUNDS. BRAZIL MADE NO COMMENT. LIMITED OFFICIAL USE

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PAGE 04 STATE 049850

NEGOTIATIONS FOR SOFT FUNDS. BRAZIL MADE NO COMMENT.

4. U.S. REPRESENTATIVE, TREASURY DEPUTY ASSISTANT SECRETARY BUSHNELL, PRAISED VENEZUELA AND IDB MANAGEMENT FOR SIGNIFICANT STEP TO INCREASE DEVELOPMENT RESOURCES PARTICULARLY BY ESTABLISHMENT OF TRUST FUND INSTEAD OF MERELY ARRANGING VENEZUELA PURCHASE OF IDB BONDS WHICH WOULD HAVE ENCUMBERED IDB'S CAPACITY TO BORROW AGAINST CALLABLE CAPITAL. UNDER TRUST FUND, VENEZUELA, NOT OTHER MEMBERS OF BANK, TAKES CREDIT RISK ON LENDING. BUSHNELL ALSO EXPRESSED SPECIAL SATISFACTION WITH EFFECTIVE BURDEN-SHARING AT THIS TIME WHEN NEED IN LATIN AMERICA GREATER AND U.S. ECONOMIC DIFFICULTIES LIMIT WHAT IT CAN DO.

5. BUSHNELL THEN COMMENTED ON THREE U.S. CONCERNS. FIRST IS POTENTIAL PROBLEMS ARISING FROM PROVISION FOR TRUST FUND

FINANCING (A) BUYOUTS OF NON-LATIN FOREIGN INVESTMENT AND
(B) EQUITY INVESTMENTS. EXPRESSED CONFIDENCE BANK WOULD
IMPLEMENT BUYOUT LOANS IN CONSTRUCTIVE FASHION DESIGNED TO
AVOID CONTROVERSIES AND TO LIMIT EQUITY INVESTMENTS ALONG

INES OF IFC'S SMALL MINORITY PARTICIPATIONS WHICH PROMOTE
ECONOMIC DEVELOPMENT.

6. SECOND CONCERN IS IMPLICIT CONTRADICTION OF PRINCIPLE OF
LENDING TO LESSER DEVELOPED COUNTRIES MAINLY OR ENTIRELY
WITH SOFT FUNDS. POOREST COUNTRIES (CATEGORY D) MAY NOT BE
ABLE TO AFFORD TERMS OF TRUST FUND BUT IMPLICATION OF TRUST
FUND IS THAT THESE COUNTRIES CAN AFFORD ORDINARY CAPITAL
TERMS. AT U.S. INSISTENCE, FINAL PARAGRAPH ADDED TO COMMI-
TEE OF GOVERNORS RESOLUTION AS FOLLOWS: QUOTE: THE COM-
MITTEE ALSO OBSERVED THAT EXTERNAL FINANCING REQUIREMENTS,
ESPECIALLY OF RELATIVELY LESS DEVELOPED AND LIMITED MARKET
COUNTRIES, UNDERLINE THE NEED FOR THE BANK TO RECEIVE IN
THE NEAR FUTURE AN IMPORTANT INFLOW OF CONCESSIONARY RE-
SOURCES. END QUOTE.

7. THIRD U.S. CONCERN IS THAT HARD TERM TRUST FUND WITHOUT
SUBSTANTIAL ACCOMPANYING CONCESSIONAL CONTRIBUTION MAY PRE-
JUDICE WILLINGNESS OF U.S. CONGRESS TO RESPOND FAVORABLY TO
FUTURE REQUESTS FOR ADDITIONAL CONTRIBUTIONS TO FSO. U.S.
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PAGE 05 STATE 049850

PLEASED TO LEARN THAT NEGOTIATIONS FOR ADDITIONAL, SOFT
TERM CONTRIBUTION CONTINUING AND URGED ACTION BEFORE ANNUAL
MEETING IF POSSIBLE. U.S. DECISION ON NEXT REPLENISHMENT
OF IDB HARD AND SOFT FUNDS SHOULD BE TAKEN SOON (BANK EX-
PECTED TO EXHAUST ORDINARY CAPITAL COMMITMENT AUTHORITY IN
1975) AND EXTENT AND NATURE OF VENEZUELAN CONTRIBUTION
WILL BE IMPORTANT FACTORS AFFECTING U.S. DECISION. BUSH-
NELL ALSO COMMENTED THAT WE WOULD CONSIDER VENEZUELAN CON-
VERSION OF NOTES HELD BY IDB AS DESIRABLE ACTION, BUT WE
HOPE VENEZUELA IS PREPARED TO CONTRIBUTE ADDITIONAL CONCES-

SIONARY RESOURCES AS WELL.

8. DEPARTMENT AND OTHER WASHINGTON AGENCIES THANK ADDRES-
SEE POSTS FOR THEIR ASSISTANCE ON THIS ISSUE. INGERSOLL

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